

THE MEXICAN MARKET FOR BUILDING MATERIALS

Prepared For

**State of Washington
Department of Community, Trade and Economic Development**

By

Trade Management Services, Inc.

June 2004

Background

Building materials is a wide ranging category that could refer to many different types of products and materials. In order to apply parameters to make the present research manageable, this report is based on the guidelines provided by CTED via email on April 7, 2004, which indicated the following product areas to be of interest:

- Bathroom and kitchen fixtures
- Wood windows and doors
- Plastic/vinyl doors and windows
- Electrical fixtures
- Electric insulating tubes
- Parquet panels of wood
- Plumbing fixtures
- Roofing products
- Copper pipes and tubing
- Window brackets

These products and many others of similar classification are encompassed within the overall category of building materials as described in the following market profile.

Market Overview

The chronic shortage of housing and high demand for homes in Mexico represents a substantial pent up opportunity for all types of building materials and interior finishings. This need currently is being addressed by expanded government housing construction programs and a rebound in bank financing for home construction and improvement. The country's overall construction industry, estimated at over US\$ 80 billion annually, is projected to grow by 6.6% in 2004. Residential, industrial and commercial construction together represent approximately one quarter of the total market, or some US\$20 billion annually (Figure 1). The market for luxury homes is estimated at approximately US\$3 billion, with growth of 4-5% expected during 2004 and 2005, according to the U.S. Commercial Service. Mexico's National Statistics Bureau, INEGI, reports that overall expenditures on construction materials has averaged approximately US\$ 6 billion annually since 2001. The United States is reported to export some US\$ 1.7 billion in materials for housing construction to Mexico annually.

Figure 1. Value of the Mexican Construction Industry, 1997-2001 (in billions USD)

	1997	1998	1999	2000	2001
Residential	11.6	13.8	13.7	15.0	15.4
Industrial and Commercial	7.9	9.0	9.8	10.3	10.6
Infrastructure	33.7	34.5	37.8	39.4	40.5
Renovation	7.9	11.7	13.7	14.3	14.7
Total	61.1	69.0	75.0	79.0	81.2
Growth Rate	n/a	12.9%	8.7%	5.3%	2.8%

Source: *Secretaría de Hacienda y Crédito Público and INEGI*

NOTE: Most recent data available

Customer Profile

Mexico's construction industry includes what is classified as both "formal" and "informal" construction. The "formal" sector accounts for 25% of industry activity and represents projects carried out by the 9,000 companies affiliated with Mexico's National Construction Industry Chamber (CNIC). Formal-sector companies generally rely heavily on government projects. The "informal" sector of the industry accounts for the other 75% of the market with projects carried out by professionals and companies not affiliated with the CNIC, in addition to individuals building their own homes without professional assistance. Both of these sectors are consumers of prefabricated construction finishings and materials.

Residential Construction

Low-cost public housing programs are leading the reactivation of residential construction in Mexico. Federal programs called for construction of some 500,000 housing units by the end of 2003 and this number is projected to reach 750,000 units by 2006. Builders are now obtaining credit directly from government housing agencies such as the Federal Housing Fund (Fovi) and the National Workers Housing Fund (Infonavit). The age group that is the prime consumer of new housing, 20-49 years old, represents 47% of Mexico's population. This group, however, is comprised principally of lower cost housing, as consumers with the purchasing power to afford more luxurious homes (Figure 2) comprise less than 5% of wage earners.

Figure 2. Housing Types and Their Current Average Values In Mexico

Type	Price in USD*	Area	Characteristics
Poor	\$6,250	30 m2	1-2 rooms. Maybe water and sewage. Self constructed.
Low Income	\$6,250 to 15,000	45 m2	1-2 bedrooms, bathroom kitchen, dining-living-room. Apartments or houses.
Lower middle-class	\$15,000 to \$28,000	50 m2	2-3 bedrooms, 1 bathroom, kitchen, dining-living-room. Apartments or houses.
Middle Class	\$28,000 to \$70,850	100 m2	2-3 bedrooms, 1-2bathroom, kitchen, dining room, living room, 1-2 garages, maid's room. Condominium houses and apartments.
Upper Middle Class ("Residential" Housing)	\$70,850 to \$157,000	200 m2	3-4 bedrooms, 2-3 bathrooms, 2-3 garages, maid's room, apartments or houses.
Wealthy Class ("Residential- Plus" Housing)	\$157,000 and up	250 m2 +	3-4 bedrooms, 3-4 bathrooms, studio, 3-6 garages, maid's room (s)

Source: National Construction Industry Chamber (CNIC) estimates

*Estimated new home price based on 2000 exchange rate of 9.60 pesos = US\$1.00

Industrial and Commercial Construction

Industrial and commercial construction is an important engine of growth for the Mexican construction sector. Mexico City is the most important center for commercial construction in the country, with more commercial buildings, office towers, shopping centers and hotels than any other city in the country. The past several years have seen major construction of mega-mall complexes, office buildings and foreign retail stores in other major cities as well. In addition to the Capital area, The states of Queretaro, Puebla, Hidalgo and Morelos are prime targets for increased commercial construction, due to their close proximity to Mexico City.

Schools and Hospitals

Schools and clinics may represent a large potential market for building materials and interior finishings. In order to serve its growing population, Mexico continues to build schools and hospitals. Government educational plans call for over 5,000 new schoolrooms to be constructed or remodeled annually during the present administration. The rehabilitation and new construction of hospitals and clinics also is a focus of government social programs. School construction is administrated by the Public Education Secretariat (SEP) and by a coordinating agency, the Administrating Committee of the Federal School Construction Program (CAPFCE). The private sector is a major player in hospital development. The commercial property and health-care company Grupo Angeles, for example, is pursuing aggressive plans to expand its nationwide network of hospitals, including new facilities in Tijuana and Mexicali in the border state of Baja California.

Market Access

Private-Sector Distributors and Wholesalers

Working with well-established distribution firms with service capabilities is key to serving Mexico's market for building materials, especially when targeting large developers and construction companies. Mexico's over 20,000 large, medium, small and micro-scale distributors of building materials are primarily concentrated in the country's leading cities, such as Mexico City, Guadalajara, Monterrey, Queretaro, Leon and Aguascalientes. Industry sources recommend the following topics be carefully addressed in negotiating any representation agreement:

- A description of the services to be sold
- The territory in Mexico to which the agreement applies
- The duration of the agreement
- The terms of payment of the commission
- Responsibilities for promotion and advertising expenses
- Responsibilities for client training
- Follow-up service arrangements and responsibilities
- A non-competition clause
- Pricing and payment terms related to the service
- Access to clients
- Limitations and liabilities of the parties

The larger construction companies prefer to negotiate purchases of import materials directly with foreign manufacturers. Large distributors of building materials also import directly from foreign manufacturers, while medium, small and micro distributors most often work with the foreign supplier's representative. Distributors and representatives of building materials most often offer some technical assistance on the use and installation of the products. Some, such as most offer residential window suppliers, also offer consulting, design and construction services.

Imported building materials and home improvement products, particularly in the upscale categories, are most likely to be purchased in Mexico by the country's middle and upper classes. Some finishings and décor oriented products are sold at upscale department stores such as Palacio de Hierro, Liverpool and Sears and at hardware or DIY stores such as Home Depot or specialty stores dedicated to individual product types.

Opportunities

The U.S. Commercial Service identifies the following products and services as those with the strongest current market potential in Mexico:

- Aluminum doors and windows
- Steel and iron doors and windows
- Wooden windows, doors and frames
- Kitchen and bathroom fixtures
- Electrical fixtures
- Roofing products
- Flat glass
- Plastic plumbing fixtures
- Architectural services and technologies

Regulatory Environment

Import Requirements

There are virtually no barriers to the importation of building materials in Mexico under the North American Free Trade Agreement. Mexico's Free Trade Agreement with the European Community also has eliminated import tariffs for these products. Although European imports have done well in the Mexican market, the higher cost of the euro vs. the dollar currently makes U.S. products attractive for smaller and medium sized Mexican manufacturers.

A Mexican company seeking to import must register with the Secretaria de Economia. This is a one-time procedure that can be accomplished when the company is formally set up to do business. If importing is not included in the original description of corporate activities at the time of incorporation, the company can request an extension of its authority to operate as an importer at a later date. In either case, the company is given a registration number that should appear on import documentation, including the commercial invoice. To facilitate matters, the U.S. exporter should obtain the importer's import registration number when an order is accepted and before shipping. Failure to do so could result in delays.

Certificates

To qualify for NAFTA preferential treatment, U.S. exporters are required to include a NAFTA certificate of origin with shipping documentation. The certificate of origin should be completed and signed by the exporter and may cover a period of time up to one year.

Standards

Some types of products are required to meet Mexican official norms (Normas Oficiales Mexicanas, or NOMs) to be imported into the country. Applicability of NOMs depends on the product to be imported. It is highly recommended for a U.S. exporter to verify applicable NOMs and tariffs with a Customs broker before shipping any products to Mexico. For further information on NOMs please consult a Customs broker or contact the Dirección General de Normas of the Secretaría de Economía included in the Key Contacts section of this report.

Product standards are an important consideration for companies exporting capital goods, machinery and building materials to Mexico. Currently, there are over 300 voluntary technical standards, called Norma Mexicana or NMX, for building materials. The voluntary technical standards are certified by a private organization called Organismo Nacional de Normalizacion y Certificacion de la Construccion y Edificacion (ONNCCE, or National Organization for the Certification of Norms for Construction and Edification). This organization includes representatives from 16 chambers, associations and building materials manufacturers. ONNCCE certifies building materials that are often requested for technical purposes by government agencies such as the SSA, SEP, Infonavit and Fovi. These agencies require NMX certification for product procurement.

Labeling

Labeling requirements for importation vary depending on the type of product to be imported and whether it is for consumer or industrial use. All labeling requirements for specific products should be verified with the Mexican importer and a Customs broker before undertaking any export shipments. Labeling information that may be required in applicable cases includes the following:

- Name and address of the importer
- Importer's taxpayer registry (RFC)
- Name and address of the exporter
- Country of origin
- Trademark and commercial brand name of the product
- Product handling, use, and care instructions
- Description of the product in cases when the product is not visible
- Warning and precautions, if applicable
- Expiration date, if applicable

Taxes

Taxes applied to imports into Mexico include the Value Added Tax (VAT) of 15% and the Mexican Customs processing fee of 0.08% on the value of the merchandise.

Key Contacts

Trade Organizations

Camara Mexicana de la Industria de la Construccion (CMIC)
(Mexican Construction Industry Chamber)
Periferico Sur no. 4839
Col. Parques del Pedregal
14010 Mexico, D.F.
Tel. (52)(55) 5665-0424 / 1500
Fax: (52)(55) 5606-6720
Web: www.cmic.org

Centro Impulsor de la Habitacion y la Construccion, A.C. (CIHAC)
(Residential Construction Promotion Center)
Minerva 16
Col. Credito Constructor
03940 Mexico, D.F.
Tel. (52)(55) 5661-9176, 5661-0600, 5661-0844
Web: www.cihac.com.mx
Email: expo@cihac.com.mx

Federacion Interamericana de la Industria de la Construccion
(Inter-American Construction Industry Federation)
Periferico sur 4839
Col. Tlalpan
14010 Mexico, D.F.
Tel. (52)(55) 5424-7457 / 7458 / 7459
Fax: (52)(55) 6062786
Web: www.fiic.org.mx
Email: fiic@fiic.org

Trade Events

Expo CIHAC 2004
October 14-19, 2004
Centro Banamex
Avenida del Conscripto Número 311
Col. Lomas de Sotelo
11200 Mexico D.F.
Info: Centro Impulsor de la Construccion y la Habitacion, A.C. (CIHAC)
(See CIHAC under Trade Organizations)

Mexico's largest construction industry show aimed at the residential construction industry.

Expo Tu Casa 2004

November 19-21, 2004

Cintermex Convention Center

Av. Fundidora 501

Col. Obrera

64010 Monterrey, Nuevo Leon

Info:

Asociacion Promotora de Exposiciones, A.C.

Av. Parque Fundidora No. 501

Edificio Cintermex, Local 88 P.N.

Col. Obrera

64010, Monterrey, Nuevo Leon

Tel: (52)(81) 8369-6660 / 64 / 65

Fax: (52)(81) 8369-6732

Web: www.expotucasamonterrey.com

Email: anyapex@cintermex.com.mx

Exposition held in Monterrey dedicated to suppliers of materials and equipment for household construction, remodeling, furnishing and decorating.

Construexpo

August 26-28, 2004

Expo Guadalajara

Av. Mariano Otero # 1499

44520 Guadalajara, Jalisco

Tel. (52)(33) 3343-3000

Fax: (52)(33) 3343-3030

Web: www.expo-guadalajara.com

Email: rpublicas@expo-guadalajara.com

Info:

CMIC Jalisco

Lerdo de Tejada 2151

Sector Juarez

44100 Guadalajara, Jalisco

Tel. (52)(33) 3647-7664

Fax: (52)(33) 3647-5911

Web: www.construexpo.com.mx

Exposition of suppliers of products and services for the construction industry featuring 17,000 attendees.

Government Contacts

Instituto del Fondo Nacional para la Vivienda de los Trabajadores (INFONAVIT)

(Housing Pension Fund for Private Sector Employees)

Barranca del Muerto no. 280

Col. Guadalupe Inn

01029 Mexico, D. F.

Tel. (52)(55) 5629-7000, 5480-7600

Web: www.infonavit.gob.mx

Email: infonavit@infonavit.gob.mx

Fondo de Operacion y Financiamiento Bancario a la Vivienda (FOVI)

(Federal Housing Fund)

Av. Ejercito Nacionalno. 180

Col. Anzures

11590 Mexico, D. F.

Tel. (52)(55) 5263-4500, 5255-3644 / 4149

Fax: (52)(55) 5203-4547

Web: www.fovi.gob.mx

Direccion General de Normas

Secretaria de Economia

Av. Puente de Tecamachalco 6

Col. Lomas de Tecamachalco

53950 Estado de Mexico

Tel. (52)(55) 5729-9300

Web: www.economia-noms.gob.mx

Industry Publications

Revista Mexicana de la Construccion

Camara Nacional de la Industria de la Construccion

Periferico Sur no. 4839

Col. Parques del Pedregal

14010 Mexico, D. F.

Tel. (52)(55) 5665-0424

Fax: (52)(55) 5606-6720

Web: www.cmic.org/revista/

Espacios de Construccion y Arquitectura

Bradley 44-A

Col. Anzures,

11590 Mexico, D. F.

Tel. (52)(55) 5250-9008

Fax: (52)(55) 5250-9196

Web: www.espacios.com

Email: espacios@espacios.com